

SOUTHERN DIVISION

RULE 11(f) FACTUAL BASIS FOR GUILTY PLEA

HealthSouth

3. *HealthSouth* reported the financial results of its operations in financial statements that include both an Income Statement and a Balance Sheet. A company's Income Statement reports, among other things, revenue recognized, expenses incurred, and income earned during a

stated period of time – usually for a fiscal quarter or fiscal year. Within an Income Statement, expenses are generally subtracted from revenues to calculate net income. A company's Balance Sheet reports, among other things, the assets and liabilities of a company at a point in time, usually at the end of a fiscal quarter or the end of a fiscal year.

The Scheme

4. Beginning at least in or about 1996, a group of *HealthSouth's* senior officers, which included the defendant **BEAM** and the then Chief Executive Officer (the "CEO") (collectively, the "Senior Officers"), and others, recognized that *HealthSouth's* financial results were failing to produce sufficient earnings per share to meet or exceed Wall Street "earning expectations" or "analyst expectations." The Senior Officers and others recognized that the earnings shortfall created a substantial risk that, unless *HealthSouth's* earnings per share were artificially inflated, *HealthSouth's* earnings would fail to meet analyst expectations and the market price of *HealthSouth's* securities would therefore decline.

5. Beginning at least in or about 1996, the Senior Officers, including defendant **BEAM** and others, engaged in an illegal scheme to inflate artificially *HealthSouth's* publicly reported earnings and earnings per share and falsify reports of *HealthSouth's* financial condition. The Senior Officers, including defendant **BEAM** and others, caused *HealthSouth* to file publicly with the Securities and Exchange Commission annual reports and quarterly reports that materially misstated, among other things, *HealthSouth's* net income, revenue, earnings per share, assets, and liabilities during the period of defendant **BEAM'S** involvement in the scheme. In addition, when *HealthSouth* applied for extensions of credit, the Senior Officers, including defendant **BEAM** and others, caused false reports of *HealthSouth's* financial condition to be presented to banks and other lenders.

6. On or about April 18, 1996, *HealthSouth* entered into a Third Amended and Restated Credit Agreement ("Agreement") with a syndicate of 32 lenders from around the world, including AmSouth Bank of Birmingham, Alabama, which was insured by the Federal Deposit Insurance Corporation. This credit facility obligated the lenders to extend a line of credit totaling \$1.25 billion to *HealthSouth*. Of this total amount, AmSouth Bank agreed to loan \$55,000,000

to *HealthSouth*. The Agreement required *HealthSouth* to provide each lender with quarterly and annual financial statements which had been certified as true and accurate. In order to receive, and continue to receive, the line of credit, the Senior Officers, including the then CEO and defendant **BEAM**, knowingly caused false financial statements of *HealthSouth* to be provided to the lenders, including AmSouth Bank,

The Defendant

7. Defendant **BEAM** was one of the original founders of *HealthSouth*. From the company's inception in or about 1984, until he resigned in October 1997, defendant **BEAM** was *HealthSouth*'s CFO. He also served on *HealthSouth*'s Board of Directors from 1984 until October 1997.

8. Defendant **BEAM** became aware that the company was not meeting earnings projections in at least 1996. Defendant **BEAM** reviewed quarterly preliminary income statements showing *HealthSouth*'s true and accurate financial results, which showed that *HealthSouth* was not meeting earnings per share projections. When earnings did not meet the then CEO's projections, the then CEO would instruct defendant **BEAM** and other Senior Officers to fix the books and records of *HealthSouth* so that they would reflect the then CEO's earnings per share projections.

9. As the CFO of *HealthSouth*, defendant **BEAM** signed numerous Forms 10-Q and 10-K. Beginning at least in or about 1996, he signed the Forms 10-Q and 10-K knowing that the financial statements attached to the forms did not fairly present, in all material respects, the financial condition and results of operations at *HealthSouth*. These documents were also signed by the then CEO.

10. On or about August 14, 1996, and periodically thereafter, until defendant **BEAM** resigned in October 1997, the Senior Officers, including the then CEO and defendant **BEAM**, caused *HealthSouth*, in connection with the Third Amended and Restated Credit Agreement, to make financial statements available to AmSouth Bank knowing that the financial statements did not fairly present, in all material respects, the financial condition and results of *HealthSouth*.

11. This document does not set forth the complete and full extent of defendant **BEAM'S** knowledge about criminal activity at *HealthSouth*, but is intended only to provide a factual basis for his guilty plea to an Information filed against him by the United States.

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